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Farm Sector Outlook for 1997 . . . & USDA's Baseline Scenario for 1997-2005

U.S. Agricultural Outlook in 1997

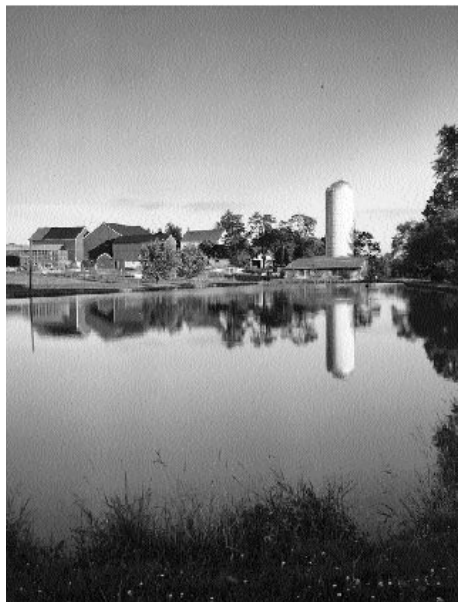
The U.S. agricultural economy is in a relatively strong position following record farm cash receipts of nearly \$200 billion in 1996. Positive macroeconomic conditions continue to provide a supportive backdrop in 1997. The farm sector balance sheet is expected to improve again in 1997, as asset values rise more than debt increases. Total receipts are likely to decline slightly from last year's record, and overall production expenses, while held in check by lower feed costs, will rise modestly. Consequently, net cash farm income is forecast to decline to about halfway between the \$57 billion of 1996 and the \$49 billion of 1995.

Fast Forward to 2005—Globally . . .

Robust growth in global import demand for agricultural products will be the major force in international commodity markets through 2005. In USDA's global baseline analysis, U.S. high-value exports, including meats and horticultural products, will continue to show strong growth, generally outpacing bulk exports and accounting for a growing share of U.S. farm exports. Strong U.S. export growth is also projected for bulk commodities in these years, particularly feed grains and wheat, driven largely by growth prospects in developing countries. International bulk commodity supplies will tighten, slowing the long-term downward trend in inflation-adjusted prices. The extent to which global supplies will respond in an environment of firmer prices is a key uncertainty in the outlook.

. . . and Domestically

As the world's leading grain exporter and a significant meat exporter, the U.S. stands to benefit from projected gains in international grain demand and higher commodity prices through 2005. And greater market orientation in the domestic agricultural sector under the new farm legislation puts U.S. farmers in a favorable position to compete in the global marketplace. As a result, the positive



international outlook is echoed, for the most part, in the U.S. farm sector.

U.S. net farm income, in nominal terms, falls for 2 years from recent highs in 1996, then rises through 2005. The agricultural sector relies increasingly on the marketplace for its income, as direct government payments fall through 2002 and represent less than 3 percent of gross cash income beyond 2000. Four principal assumptions support the optimistic baseline scenario: strong growth in demand; continuation of current domestic policy; multilateral and unilateral trade policy reform in other countries; and structural change in U.S. agriculture.

Food CPI to Climb 2.5-3 Percent

The Consumer Price Index (CPI) for food in 1997 is forecast to rise 2.5-3 percent, down from last year's 3.3-percent gain. Overall inflation (measured by changes in the all-items CPI) is forecast to increase just over 3 percent. This should keep a lid on costs of food production and marketing—e.g., labor, packaging, transportation, and advertising—which account for about 75 percent of retail food costs. The away-from-home CPI is forecast to rise 2-3 percent in

1997, with the at-home component up 2.5-3.5 percent.

5th Year of Rising Farm Credit Use

Demand for farm credit is expected to increase again in 1997 after growing since 1992. Total farm business debt—real estate and nonreal estate loans—is forecast to reach about \$160 billion by the end of 1997, up about 2.7 percent from 1996 and the highest since 1985. Continued economic growth, relatively strong field crop prices, and increased farm incomes in 1996 are behind much of this year's expected expansion.

Credit availability should be ample for agriculture and rural business borrowers in 1997, while general interest rates may rise slightly by the second half of 1997. Commercial banks in the first quarter have continued to ease credit standards for lending to businesses, including small firms. The easing of credit standards and the desire to expand business lending has led to a narrowing of business lending spreads (the difference between the loan rate charged by the bank and the bank's cost of funds) as well as greater availability of funds for business lending.

Exporters Target U.S. Asparagus Market

The U.S. is one of the world's largest producers and consumers of fresh asparagus. In the past, fresh asparagus was consumed in the U.S. only in the first half of the year, when domestic product was available. Thanks to soaring imports (mostly from Mexico and Peru)—up 74 percent in the 1990's—fresh asparagus is now available year-round. But imports arrive not only during the off-season. They also come in during the U.S. season beginning in January, reducing the early-season price premium. U.S. asparagus production has declined since 1989 but is expected to increase in 1997, boosting supply in the next few years. Under these conditions, U.S. producers should expect downward pressure on prices.